

**CITY OF BEAVERTON**  
**GLADWIN COUNTY, MICHIGAN**

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**FINANCIAL STATEMENTS**  
For The Year Ended June 30, 2008

## CITY OF BEAVERTON

### CITY COUNCIL

Nila Frei	Mayor
Pattie Vallender	Council Member, Ward 1
Mark Schultz	Council Member, Ward 1
John Stenger	Council Member, Ward 2
Bridget Rise	Council Member, Ward 2
Ron Streeter II	Council Member, Ward 3
Clark Wentz	Council Member, Ward 3

### MANAGEMENT

Kerry Posey	City Manager
Beverley Dodd Miller	City Clerk
Barb Williams	City Treasurer

### CITY POPULATION–2000 CENSUS

1,106

### STATE EQUALIZED VALUE–2007

\$23,596,648

### STATE TAXABLE VALUE–2007

\$19,387,577

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN**

**AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2008**

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## INDEPENDENT AUDITORS' REPORT

To the Members of the City Council  
City of Beaverton  
Gladwin County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Beaverton (the "City"), Gladwin County, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Beaverton's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Beaverton, as of June 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2008, on our consideration of the City of Beaverton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 34 through 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*City of Beaverton*  
*December 15, 2008*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Beaverton's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City of Beaverton. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Burnside & Long, P.C.*

Midland, Michigan  
December 15, 2008

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
MANAGEMENT DISCUSSION AND ANALYSIS  
June 30, 2008**

As management of the City of Beaverton, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended June 30, 2008.

**Financial Highlights**

- The net assets of the City increased at the close of the year ending June 30, 2008 by \$53,407.
- During the year, the City's expenses were \$54,920 less than the \$665,076 generated in property taxes and other revenues for the governmental activities. Expenses exceeded revenue by \$2,790 in the previous year.
- The City's net assets in its business-type activities increased \$121,231 during the year, compared to a decrease of \$86,426 in the previous year.
- As of the close of the year ended June 30, 2008, the City's unrestricted net assets in its governmental activities were \$52,854 or approximately 8% of current year expenses. Unrestricted net assets were \$47,134 or approximately 7% of current year expenses in the previous year.

**Overview of the Financial Statements**

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The *governmental funds* statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
MANAGEMENT DISCUSSION AND ANALYSIS  
June 30, 2008**

*Proprietary fund* statements offer short and long-term financial information about the activities the government operated like businesses, such as the hydroelectric, water and sewer systems.

*Fiduciary fund* statements provide information about financial relationships - like the tax collection activities of the City.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

The City has three kinds of funds:

- Governmental funds - Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in the notes to the financial statements.
- Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows. We use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities - such as the City's DPW Equipment Fund.
- Fiduciary funds - The City is the agent, or fiduciary, for tax collection purposes. The City is responsible for the collection and proper remittance of all property taxes. The City's fiduciary activity is reported in a separate statement of fiduciary net assets. We exclude this activity from the City's government-wide financial statements because the City cannot use these assets to finance its operations.



**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
MANAGEMENT DISCUSSION AND ANALYSIS  
June 30, 2008**

**Changes in Net Assets**

The City's total revenues increased \$125,635 during the fiscal year. Approximately one quarter of the City's revenue comes from property taxes. The remaining revenue comes from state aid, user fees, and water, sewer and hydroelectric utility sales. The impact of state revenue cuts and the slow growth of property taxes is hoped to be off set by the growth in revenue produced by the hydroelectric fund.

**Governmental Activities**

Revenues for the City governmental activities remained relatively unchanged. Loss in state revenue sharing was off set by increases in proprietary funds and fees charged. The City has also increased efforts to bring new business into the City and encouraging existing business to stay by offering tax abatements for new developments and expansion, seeking grant opportunities, and maintaining a website which highlights advantages of doing business within the City.

The City's management took the following steps to stabilize or lower expenses to help offset the continued slow decline in revenues.

- Continued improved reporting and bookkeeping procedures, which reduced duplication of effort, reduced late fees and better-informed city decision makers as to the status of city funds.
- Better recording of employee time spent on the various fund activities, which allowed the enterprise funds to alleviate the general fund of more payroll expenditures.

**Proprietary funds**

Revenues from the City's business-type activities decreased \$22,765. An increase in revenue provided by the hydroelectric fund was off-set by the \$28,726 decrease in revenue for the sewer and water funds.

**Financial Analysis of the City's Funds**

As the city completed its fiscal year, its governmental funds reported a combined fund balance of \$289,571. This represents a \$54,920 fund balance increase from the last fiscal year.

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
MANAGEMENT DISCUSSION AND ANALYSIS  
June 30, 2008**

**General Fund Budgetary Highlights**

Over the course of the year, the City Council revised the budget several times. These budget amendments fall into two categories.

- Budget amendments in February and June to adjust revenue and expenditure figures.
- Transfer of monies from one fund to another to adjust fund shortfalls.

With these adjustments, actual general fund expenditures were \$74,716 less than budgeted expenditures. Resources available were also reduced based on lower than expected revenue sharing and tax revenues. The City's ending General Fund balance increased by \$81,025. The \$165,800 fund balance is 31.4% of actual, current year expenditures.

**Capital Assets**

At June 30, 2008, the City had a net investment of \$4,998,208 in a broad range of capital assets, including police equipment, buildings, park facilities, and water and sewer infrastructure. This amounts to a net increase of \$432,874 over the previous year.

**Long Term Debt**

At year end the city had approximately \$2,008,000 in bonds and notes outstanding. This is an increase of \$436,000 from the last fiscal year. Bonded indebtedness is the result of bonds sold for the wastewater treatment plant improvements, water system expansions, and the gravel roads project.

**Economic Factors and Next Year's Budget**

- The level in state revenue sharing will either remain the same or continue to fall.
- Health care costs are expected to rise by 3%. Costs have been manageable because of the ability to spread most of the increase across all expense categories. The City is also requiring employees to pay a portion of their health care costs.
- General property taxes will continue to slightly decline while costs continue to rise. The combination of the Headlee Amendment and the effects of Proposition A are contributing to the continuing decline of the millage rate, which off sets any actual growth. The combination of Proposition A and Headlee Amendment continue to erode our millage rate and the age of the population handicaps the City in increasing taxable value. At some point in the future, the City may have to go to the voters and ask for a rollback of the millage reduction.

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
MANAGEMENT DISCUSSION AND ANALYSIS  
June 30, 2008**

- DDA property tax capture, while showing a slight increase in fiscal 2007, will continue to grow based on increased efforts to attract industrial and commercial expansion. More administrative and project costs are being funded by the DDA, where applicable.
- The local union contract for the United Steel Workers was settled April 7, 2008.

Funding for most City programs are under constant scrutiny. Each budget category will be monitored and adjusted if necessary.

**Contacting the City Management**

This financial report is intended to provide our citizens, customers, investors and creditors with a general overview of the City' finances. If you have questions about this report or need additional information, contact the City Manager at P.O. Box 477, Beaverton, Michigan 48612-0477, call (989) 435-3511, or e-mail at [beavertonmanager@ispmgt.com](mailto:beavertonmanager@ispmgt.com).

**CITY OF BEAVERTON**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
**June 30, 2008**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
<b>ASSETS</b>				
Cash and cash equivalents	\$ 209,731	\$ 420,124	\$ 629,855	\$ 85,295
Accounts receivable, net	9,407	61,396	70,803	292
Assessments receivable, net	92,401	-	92,401	-
Due from other funds	2,476	50,000	52,476	-
Due from other governmental units	51,645	-	51,645	-
Inventory	-	22,977	22,977	-
Prepaid items	21,182	4,651	25,833	208
Other current assets	-	-	-	2,922
Restricted cash	-	236,234	236,234	-
Capital assets:				
Land	192,484	102,715	295,199	-
Construction in process	-	600,169	600,169	-
Buildings and improvements, net	186,322	-	186,322	-
Equipment, net	11,707	277	11,984	-
Infrastructure, net	-	3,904,534	3,904,534	-
Total capital assets	390,513	4,607,695	4,998,208	-
<b>Total assets</b>	<b>777,355</b>	<b>5,403,077</b>	<b>6,180,432</b>	<b>88,717</b>
<b>LIABILITIES</b>				
Accounts payable	28,928	11,304	40,232	18,200
Accrued expenses	8,205	6,775	14,980	-
Due to other funds	51,476	-	51,476	-
Due to other governmental units	7,200	-	7,200	-
Deposits and other liabilities	1,462	-	1,462	616
Long-term liabilities:				
Portion due or payable within one year:				
Bonds and contracts payable	35,000	40,000	75,000	20,000
Portion due or payable after one year:				
Bonds and contracts payable	315,000	1,618,000	1,933,000	240,000
<b>Total liabilities</b>	<b>447,271</b>	<b>1,676,079</b>	<b>2,123,350</b>	<b>278,816</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	40,513	2,949,695	2,990,208	-
Restricted for:				
Roads and streets	92,142	-	92,142	-
Debt service	100,570	112,051	212,621	-
Repairs	-	124,183	124,183	-
Unrestricted	96,859	541,069	637,928	(190,099)
<b>Total net assets</b>	<b>\$ 330,084</b>	<b>\$ 3,726,998</b>	<b>\$ 4,057,082</b>	<b>\$ (190,099)</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF BEAVERTON**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2008**

Activities:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
<b>Governmental:</b>								
General government	\$ 190,886	\$ 71,444	\$ -	\$ -	\$ (119,442)	\$ -	\$ (119,442)	
Public safety	126,378	-	-	-	(126,378)	-	(126,378)	
Public works	270,463	-	-	-	(270,463)	-	(270,463)	
Recreation and culture	60,837	-	-	-	(60,837)	-	(60,837)	
Interest and fiscal charges	16,808	-	-	-	(16,808)	-	(16,808)	
Total governmental activities	665,372	71,444	-	-	(593,928)	-	(593,928)	
<b>Business-type:</b>								
Electric utility	124,744	165,429	-	-	-	40,685	40,685	
Sewer	250,229	225,526	-	-	-	(24,703)	(24,703)	
Water	174,168	206,865	-	-	-	32,697	32,697	
Total business-type activities	549,141	597,820	-	-	-	48,679	48,679	
Total Primary Government	\$ 1,214,513	\$ 669,264	\$ -	\$ -	(593,928)	48,679	(545,249)	
<b>Component units:</b>								
Downtown Development Authority	\$ 64,340	\$ -	\$ 44,246	\$ -				\$ (20,094)
General revenues:								
Property taxes, levied for general purposes					269,816	-	269,816	39,258
Property taxes, levied for fire protection					16,376	-	16,376	
Property taxes, levied for roads and bridges					64,608	-	64,608	
State aid					219,897	-	219,897	
Interest earnings					3,685	4,684	8,369	622
Miscellaneous					19,250	132,868	152,118	1,172
Transfers					65,000	(65,000)	-	-
Total general revenues and transfers					658,632	72,552	731,184	41,052
Change in net assets					64,704	121,231	185,935	20,958
Net assets-beginning					265,380	3,605,767	3,871,147	(211,057)
<b>Net assets-ending</b>					<b>\$ 330,084</b>	<b>\$ 3,726,998</b>	<b>\$ 4,057,082</b>	<b>\$ (190,099)</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF BEAVERTON**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**June 30, 2008**

	<b>General Fund</b>	<b>Major Street Fund</b>	<b>Local Street Fund</b>	<b>Gravel Street Debt Service Fund</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 182,485	\$ 14,157	\$ 4,920	\$ 8,169	\$ 209,731
Accounts receivable, net	9,407	-	-	-	9,407
Assessment receivable, net	-	-	-	92,401	92,401
Due from other funds	1,000	-	1,476	-	2,476
Due from other governmental units	45,107	4,897	1,641	-	51,645
Prepaid items	20,804	199	179	-	21,182
<b>Total assets</b>	<b>\$ 258,803</b>	<b>\$ 19,253</b>	<b>\$ 8,216</b>	<b>\$ 100,570</b>	<b>\$ 386,842</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 27,859	\$ 647	\$ 422	\$ -	\$ 28,928
Accrued expenses	7,944	111	150	-	8,205
Due to other funds	50,000	1,476	-	-	51,476
Due to other governmental units	7,200	-	-	-	7,200
Deposits and other liabilities	-	853	609	-	1,462
Total liabilities	93,003	3,087	1,181	-	97,271
Fund balances:					
Reserved for:					
Prepaid items	20,804	-	-	-	20,804
Roads and streets	92,142	-	-	-	92,142
Unreserved and undesignated	52,854	16,166	7,035	100,570	176,625
Total fund balances	165,800	16,166	7,035	100,570	289,571
<b>Total liabilities and fund balances</b>	<b>\$ 258,803</b>	<b>\$ 19,253</b>	<b>\$ 8,216</b>	<b>\$ 100,570</b>	<b>\$ 386,842</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF BEAVERTON**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**June 30, 2008**

Total fund balances for governmental funds (Exhibit 4)	\$	289,571
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	192,484	
Buildings and improvements, net of \$587,721 accumulated depreciation		186,322	
Equipment, net of \$28,488 accumulated depreciation		<u>11,707</u>	
Total capital assets			390,513

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at June 30, 2008 are:

2002 General Obligation Limited Tax Bonds	\$	<u>(350,000)</u>	<u>(350,000)</u>
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Total net assets of governmental activities (Exhibit 2)	\$	<u><u>330,084</u></u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF BEAVERTON**  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES**  
**For the Year Ended June 30, 2008**

	<b>General Fund</b>	<b>Major Street Fund</b>	<b>Local Street Fund</b>	<b>Gravel Street Debt Service Fund</b>	<b>Total</b>
<b>REVENUES</b>					
Property taxes and related fees	\$ 350,800	\$ -	\$ -	\$ -	\$ 350,800
Licenses and permits	460	-	-	-	460
State aid	135,655	60,118	24,124	-	219,897
Charges for services	68,041	-	-	-	68,041
Interest and dividends	2,754	476	435	20	3,685
Rents and royalties	15,165	-	-	-	15,165
Fines and forfeits	3,403	-	-	-	3,403
Miscellaneous	3,625	-	-	-	3,625
<b>Total revenues</b>	<b>579,903</b>	<b>60,594</b>	<b>24,559</b>	<b>20</b>	<b>665,076</b>
<b>EXPENDITURES</b>					
General government	187,731	-	-	275	188,006
Public safety	123,311	-	-	-	123,311
Public works	151,199	52,989	47,206	-	251,394
Recreation and culture	60,837	-	-	-	60,837
Capital outlay	4,800	-	-	-	4,800
Debt service:					
Principal	-	-	-	30,000	30,000
Interest	-	-	-	16,808	16,808
<b>Total expenditures</b>	<b>527,878</b>	<b>52,989</b>	<b>47,206</b>	<b>47,083</b>	<b>675,156</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>52,025</b>	<b>7,605</b>	<b>(22,647)</b>	<b>(47,063)</b>	<b>(10,080)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers-in	65,000	-	22,582	36,000	123,582
Transfers-out	(36,000)	(22,582)	-	-	(58,582)
<b>Total other financing sources and uses</b>	<b>29,000</b>	<b>(22,582)</b>	<b>22,582</b>	<b>36,000</b>	<b>65,000</b>
<b>Net change in fund balances</b>	<b>81,025</b>	<b>(14,977)</b>	<b>(65)</b>	<b>(11,063)</b>	<b>54,920</b>
Fund balances-beginning	84,775	31,143	7,100	111,633	234,651
<b>Fund balances-ending</b>	<b>\$ 165,800</b>	<b>\$ 16,166</b>	<b>\$ 7,035</b>	<b>\$ 100,570</b>	<b>\$ 289,571</b>

The accompanying notes are an integral part of these financial statements.



**CITY OF BEAVERTON**  
**RECONCILIATION OF THE STATEMENT OF REVENUE,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2008**

Net change in fund balances - total governmental funds (Exhibit 5)	\$	54,920
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$4,800) were exceeded by depreciation (\$25,016) in the current period.		(20,216)
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Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Repayments:

2002 General Obligation Limited Tax Bonds	\$ 30,000		30,000
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Change in net assets of governmental activities (Exhibit 3)	\$	64,704
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The accompanying notes are an integral part of these financial statements.

**CITY OF BEAVERTON**  
**PROPRIETARY FUNDS STATEMENT OF NET ASSETS**  
**June 30, 2008**

	<b>Enterprise Funds</b>				<b>DPW Equipment Internal Service Fund</b>
	<b>Hydroelectric Fund</b>	<b>Sewer Fund</b>	<b>Water Fund</b>	<b>Total</b>	
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 136,640	\$ 192,742	\$ 90,742	\$ 420,124	\$ 42,070
Accounts receivable, net	-	32,645	28,751	61,396	-
Due from other funds	-	50,000	-	50,000	-
Inventory	-	4,952	18,025	22,977	-
Prepaid items	1,399	1,449	1,803	4,651	-
Total current assets	<u>138,039</u>	<u>281,788</u>	<u>139,321</u>	<u>559,148</u>	<u>42,070</u>
Noncurrent assets:					
Restricted cash	40,901	62,930	132,403	236,234	-
Capital assets:					
Land	-	102,115	600	102,715	-
Construction in progress	-	-	600,169	600,169	-
Equipment, net	-	-	277	277	140,095
Infrastructure, net	<u>347,044</u>	<u>2,363,284</u>	<u>1,194,206</u>	<u>3,904,534</u>	<u>-</u>
Total noncurrent assets	<u>387,945</u>	<u>2,528,329</u>	<u>1,927,655</u>	<u>4,843,929</u>	<u>140,095</u>
Total assets	<u>525,984</u>	<u>2,810,117</u>	<u>2,066,976</u>	<u>5,403,077</u>	<u>182,165</u>
<b>LIABILITIES</b>					
Liabilities:					
Accounts payable	2,596	4,735	3,973	11,304	3,983
Accrued expenses	2,048	1,901	2,826	6,775	-
Bonds and contracts payable	-	19,000	5,000	24,000	5,987
Total current liabilities	<u>4,644</u>	<u>25,636</u>	<u>11,799</u>	<u>42,079</u>	<u>9,970</u>
Noncurrent liabilities					
Bonds and contracts payable	-	994,000	640,000	1,634,000	-
Total noncurrent liabilities	<u>-</u>	<u>994,000</u>	<u>640,000</u>	<u>1,634,000</u>	<u>-</u>
Total liabilities	<u>4,644</u>	<u>1,019,636</u>	<u>651,799</u>	<u>1,676,079</u>	<u>9,970</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	347,044	1,452,399	1,149,806	2,949,249	134,108
Restricted for debt obligations	-	62,930	49,121	112,051	-
Restricted for repairs	40,901	-	83,282	124,183	-
Unrestricted	<u>133,395</u>	<u>275,152</u>	<u>132,968</u>	<u>541,515</u>	<u>38,087</u>
Total net assets	<u>\$ 521,340</u>	<u>\$ 1,790,481</u>	<u>\$ 1,415,177</u>	<u>\$ 3,726,998</u>	<u>\$ 172,195</u>

The accompanying notes are an integral part of these financial statements.

**CTTY OF BEAVERTON**  
**PROPRIETARY FUNDS STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS**  
**For the Year Ended June 30, 2008**

	Enterprise Funds				DPW Equipment Internal Service
	Hydroelectric Fund	Sewer Fund	Water Fund	Total	Fund
<b>OPERATING REVENUES</b>					
Charges for services	\$ 165,429	\$ 225,526	\$ 206,865	\$ 597,820	\$ 118,652
Miscellaneous	-	2,000	-	2,000	998
Total operating revenues	<u>165,429</u>	<u>227,526</u>	<u>206,865</u>	<u>599,820</u>	<u>119,650</u>
<b>OPERATING EXPENSES</b>					
Salaries and wages	43,069	41,126	58,085	142,280	-
Payroll taxes	3,399	3,160	4,342	10,901	-
Employee benefits	19,412	13,454	17,840	50,706	-
Supplies	1,391	2,637	5,025	9,053	35,497
Postage	-	1,493	800	2,293	-
Contracted services	-	434	314	748	-
Insurance	800	1,500	1,200	3,500	-
Bank fees	540	29	77	646	-
Engineering costs	2,561	-	-	2,561	-
Telephone and communications	1,432	2,438	878	4,748	-
Travel, meals and lodging	-	-	61	61	-
Publications	-	-	266	266	240
Utilities	1,132	33,119	8,449	42,700	-
Repair and maintenance	5,062	12,719	11,499	29,280	12,959
Equipment rental	8,271	13,800	14,506	36,577	-
Miscellaneous	22	178	-	200	7,200
Depreciation	37,653	74,833	36,771	149,257	29,437
Total operating expenses	<u>124,744</u>	<u>200,920</u>	<u>160,113</u>	<u>485,777</u>	<u>85,333</u>
Operating income (loss)	<u>40,685</u>	<u>26,606</u>	<u>46,752</u>	<u>114,043</u>	<u>34,317</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Investment earnings	437	932	3,315	4,684	1,675
Federal grants	-	-	130,868	130,868	-
Interest expense	-	(49,309)	(14,055)	(63,364)	(715)
Total nonoperating revenue (expenses)	<u>437</u>	<u>(48,377)</u>	<u>120,128</u>	<u>72,188</u>	<u>960</u>
Income (loss) before transfers	41,122	(21,771)	166,880	186,231	35,277
Transfers in	-	-	-	-	-
Transfers (out)	<u>(20,000)</u>	<u>(45,000)</u>	<u>-</u>	<u>(65,000)</u>	<u>-</u>
Changes in net assets	21,122	(66,771)	166,880	121,231	35,277
Total net assets-beginning	<u>500,218</u>	<u>1,857,252</u>	<u>1,248,297</u>	<u>3,605,767</u>	<u>136,918</u>
Total net assets-ending	<u>\$ 521,340</u>	<u>\$ 1,790,481</u>	<u>\$ 1,415,177</u>	<u>\$ 3,726,998</u>	<u>\$ 172,195</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF BEAVERTON**  
**PROPRIETARY FUNDS STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2008**

	Enterprise Funds				DPW Equipment Internal Service
	Hydroelectric Fund	Sewer Fund	Water Fund	Total	Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 182,213	\$ 231,179	\$ 208,538	\$ 621,930	\$ 118,652
Payments to suppliers	(12,415)	(62,272)	(25,878)	(100,565)	(53,111)
Payments to employees	(65,880)	(57,740)	(80,267)	(203,887)	-
Internal activity-payments from (to) other funds	(8,271)	(13,800)	(14,506)	(36,577)	-
Other receipts	-	2,000	-	2,000	998
Net cash provided (used) by operating activities	95,647	99,367	87,887	282,901	66,539
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers in	-	-	-	-	-
Transfers (out)	(20,000)	(45,000)	-	(65,000)	-
Interfund loans-proceeds and collections	(658)	(695)	(403)	(1,756)	14,705
Net cash provided (used) by noncapital financing activities	(20,658)	(45,695)	(403)	(66,756)	14,705
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Purchases and construction of capital assets	-	-	(602,347)	(602,347)	(92,896)
Proceeds from capital grants	-	-	130,868	130,868	-
Proceeds from capital debt	-	-	492,000	492,000	-
Principal paid on capital debt	-	(21,000)	(5,000)	(26,000)	(5,640)
Interest paid on capital debt	-	(49,309)	(14,055)	(63,364)	(715)
Net cash provided (used) by capital and related financing activities	-	(70,309)	1,466	(68,843)	(99,251)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest and dividends	437	932	3,315	4,684	1,675
Net increase in cash and cash equivalents	75,426	(15,705)	92,265	151,986	(16,332)
Balances-beginning of the year	102,115	271,377	130,880	504,372	58,402
Balances-end of the year	\$ 177,541	\$ 255,672	\$ 223,145	\$ 656,358	\$ 42,070
Displayed as:					
Cash and cash equivalents	\$ 136,640	\$ 192,742	\$ 90,742	\$ 420,124	\$ 42,070
Restricted cash	40,901	62,930	132,403	236,234	-
	\$ 177,541	\$ 255,672	\$ 223,145	\$ 656,358	\$ 42,070
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ 40,685	\$ 26,606	\$ 46,752	\$ 114,043	\$ 34,317
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	37,653	74,833	36,771	149,257	29,437
Change in assets and liabilities:					
Receivables, net	16,784	5,653	1,673	24,110	-
Prepaid items	(171)	(769)	(752)	(1,692)	-
Accounts payable	2,241	(6,479)	2,320	(1,918)	2,785
Accrued expenses	(1,545)	(477)	1,123	(899)	-
Net cash provided (used) by operating activities	\$ 95,647	\$ 99,367	\$ 87,887	\$ 282,901	\$ 66,539

The accompanying notes are an integral part of these financial statements.

**CITY OF BEAVERTON**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**CURRENT TAX FUND**  
**June 30, 2008**

**ASSETS**

Cash and cash equivalents	\$ 1,941
Total assets	<u>1,941</u>

**LIABILITIES**

Due to other governmental units	941
Due to other funds	<u>1,000</u>
Total liabilities	<u>1,941</u>

**NET ASSETS**

<u>\$ -</u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

**A. Reporting Entity**

The City is governed by an elected seven-member council. The accompanying financial statements present the City and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

**Discretely Presented Component Unit**

The following component unit is reported within the “component unit” column in the combined financial statements. The discretely presented component unit is an entity that is legally separate from the City, but for which the unit is financially accountable, or its relationship with the City is such that exclusion would cause the unit’s financial statements to be misleading or incomplete.

Downtown Development Authority – The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority’s governing body consists of the City’s Mayor and between eight and twelve members, selected by the City Council. In addition, the Authority’s budget is approved by the City Council. The Authority does not issue separate financial statements. Detail information can be obtained by contacting the City Clerk.

**Related Organization**

Fire Protection District – The City, in conjunction with Beaverton and Tobacco Townships, entered into an agreement to create the Beaverton Area Fire Protection District. The Fire Protection District is a legally separate organization established to provide fire protection services to the three communities.

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Property taxes, state aid, and other types of revenue not included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual—that is, when they become both measurable and available to finance expenditures of the fiscal period. Revenue susceptible to accrual include property taxes, state revenue sharing and interest.

The City property tax is levied each December 1<sup>st</sup> on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31<sup>st</sup>.

The 2007 taxable valuation of the City totaled \$19.4 million, on which ad valorem taxes levied consisted of 13.8274 mills for City operating purpose, 2.0000 mills for roads, and 0.9770 mills for fire protection. These amounts are recognized in the General Fund as property taxes and related fees.

The government reports the following major funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the receipt and expenditures of State motor fuel taxes which are earmarked by law for major street and highway purposes.

The Local Street Fund is used to account for the receipt and expenditure of State motor fuel taxes which are earmarked by law for local street and highway purposes.

The Gravel Street Debt Service Fund is used to account for the receipt of special assessment taxes, interest and interfund transfers to pay principal and interest payments on the general obligation bonds used for gravel street improvements.



**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

The government reports the following major proprietary funds:

The Hydroelectric Fund is used to record the revenues and expenses for the operation of a hydroelectric system. Capital assets are recorded within the fund and depreciation is charged.

The Sewer Fund is used to record the revenues and expenses for the operation of a sewer system. Capital assets are recorded within the fund and depreciation is charged.

The Water Fund is used to record the revenues and expenses for the operation of a water system. Capital assets are recorded within the fund and depreciation is charged.

Additionally, the government reports the following fund types:

The DPW Equipment Fund is an internal service fund, which accounts for major machinery and equipment purchases and maintenance to provide services to other departments of the government on a cost reimbursement basis.

The Current Tax Collection Fund is used to account for resources held by the City in a purely custodial capacity. Money in this fund is from current tax and special assessment collections. Timely distribution to the appropriate fund and local unit must be made in accordance with Section 43 of the General Property Tax Act.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989, for its business-type activities.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The sewer and water funds also recognize the portion of tap fees intended to recover current costs as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**D. Assets, Liabilities, and Net Assets**

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as "due to/from other funds". Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds".

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items—Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect cost applicable to future years and are recorded as prepaid items in the government-wide and fund statements.

Restricted Assets—The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities, and Net Assets**

Capital Assets—Capital assets, which include property, plant, equipment and infrastructure assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 (unless the asset is a computer or a firearm) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred, if any, during the construction of capital assets of business-type activities is included in the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Sewer and water systems	50 to 75 years
Office equipment	5 to 10 years
Computer equipment	3 to 5 years

Compensated Absences (Vacation and Sick Leave)—It is the City's policy to permit employees to accumulate earned but unused personal days and vacation benefits. All vacation and personal day pay is accrued when incurred in the government-wide financial statements.

Long-Term Obligations—In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities, and Net Assets**

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations, if any, of fund balance represent tentative management plans that are subject to change.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the debt service funds. All annual appropriations lapse at fiscal year end. The budget document presents information by fund, function, department or activity, and line items. The legal level of budgetary control adopted by the governing body is the department or activity level.

Excess of Expenditures Over Appropriations in Budgeted Funds—During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budgeted Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund—Elections	\$ 5,185	\$ 5,217
Local Street Fund—Salaries & Wages	16,605	16,876
Major Street Fund—Salaries & Wages	19,500	19,830
Major Street Fund—Equipment Rental	18,000	27,179

**NOTE 3. DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptances of United States banks' commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 3. DEPOSITS AND INVESTMENTS (Continued)**

The City Council has designated three banks for the deposit of City funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory as listed above.

The City's deposits and investment policy are in accordance with statutory authority.

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	<b>Governmental Activities</b>	<b>Business-Type Funds</b>	<b>Fiduciary Funds</b>	<b>Total Primary Government</b>	<b>Component Unit</b>
Cash and cash equivalents	\$ 209,731	\$ 420,124	\$ 1,941	\$ 631,796	\$ 85,295
Restricted cash	-	236,234	-	236,234	-
Total	\$ 209,731	\$ 656,358	\$ 1,941	\$ 868,030	\$ 85,295

The breakdown between deposits and investments is as follows:

	<b>Primary Government</b>	<b>Component Unit</b>
Bank Deposits (checking and savings, certificate of deposit)	\$ 867,930	\$ 85,295
Petty Cash and Cash on Hand	100	-
Total	<u>\$ 868,030</u>	<u>\$ 85,295</u>

**Investment and Deposit Risk**

**Custodial Credit Risk – Deposits.** Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$540,688 of bank deposits (checking and savings accounts) that were potentially uninsured and uncollateralized.

**Custodial Credit Risk – Investments.** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, that the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the City had no investments.

**Interest Rate Risk.** Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. State law limits the allowable investments and the maturities of some of the allowable investments. The City's current investments have no potential interest rate risk.

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 4. CAPITAL ASSETS**

Capital asset activity of the primary government for the current period was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 192,484	\$ -	\$ -	\$ 192,484
Capital Assets Being Depreciated				
Buildings and Improvements	774,043	-	-	774,043
Equipment - Police Department	16,495	4,800	-	21,295
Other Capital Assets	18,900	-	-	18,900
Subtotal	809,438	4,800	-	814,238
Less Accumulated Depreciation for				
Buildings and Improvements	568,652	19,069	-	587,721
Equipment - Police Department	11,321	3,067	-	14,388
Other Capital Assets	11,220	2,880	-	14,100
Subtotal	591,193	25,016	-	616,209
Net Capital Assets Being Depreciated	218,245	(20,216)	-	198,029
Governmental Activities Capital Assets-Net of Depreciation	<u>\$ 410,729</u>	<u>\$ (20,216)</u>	<u>\$ -</u>	<u>\$ 390,513</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 102,715	\$ -	\$ -	\$ 102,715
Construction in process	-	600,169	-	600,169
Subtotal	102,715	600,169	-	702,884
Capital Assets Being Depreciated				
Equipment	526	-	-	526
Infrastructure	6,191,506	2,178	-	6,193,684
Subtotal	6,192,032	2,178	-	6,194,210
Less Accumulated Depreciation for				
Equipment	197	52	-	249
Infrastructure	2,139,945	149,205	-	2,289,150
Subtotal	2,140,142	149,257	-	2,289,399
Net Capital Assets Being Depreciated	4,051,890	(147,079)	-	3,904,811
Business-Type Activities Capital Assets-Net of Depreciation	<u>\$ 4,154,605</u>	<u>\$ (453,090)</u>	<u>\$ -</u>	<u>\$ 4,607,695</u>

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 4. CAPITAL ASSETS (Continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Internal Service Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ -	\$ -	\$ -	\$ -
Construction in process	-	-	-	-
Subtotal	-	-	-	-
Capital Assets Being Depreciated				
Equipment	396,735	99,106	13,951	2,873
Infrastructure	-	-	-	-
Subtotal	396,735	99,106	13,951	481,890
Less Accumulated Depreciation for				
Equipment	320,099	29,437	7,741	341,795
Infrastructure	-	-	-	-
Subtotal	320,099	29,437	7,741	341,795
Net Capital Assets Being Depreciated	76,636	69,669	6,210	140,095
Internal Service Activities Capital Assets—Net of Depreciation	<u>\$ 76,636</u>	<u>\$ 69,669</u>	<u>\$ 6,210</u>	<u>\$ 140,095</u>

Depreciation expense was charged to programs of the City as follows:

Governmental Activities	
General Government	\$ 2,880
Public Safety	3,067
Public Works	19,069
Total Governmental Activities	<u>\$ 25,016</u>
Business-Type Activities	
Hydroelectric	\$ 37,653
Sewer	74,833
Water	36,771
Total Business-Type Activities	<u>\$ 149,257</u>
Internal Service Activities	
DPW	\$ 29,437
Total Business-Type Activities	<u>\$ 29,437</u>

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund receivables and payables is as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General	\$ 1,000	General	\$ 50,000
Local Street	1,476	Major Street	1,476
Sewer	50,000	Tax Collection	1,000
Total	\$ 52,476	Total	\$ 52,476

The outstanding balances between funds results mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur and the payments between funds.

The composition of interfund transfers out and in is as follows:

Fund	Transfers Out	Fund	Transfers In
Sewer	\$ 45,000	Local Street	\$ 22,582
Hydroelectric	20,000	Debt Service	36,000
General	36,000	General	65,000
Major Street	22,582		
Total	\$ 123,582	Total	\$ 123,582

Transfers represent unrestricted revenues used to finance various programs that the City must account for in specific funds in accordance with budgetary authorizations, amounts provided as subsidies, or matching funds for various grant programs.



**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 6. LONG-TERM DEBT**

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties that directly benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual agreements can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>						
General Obligation Bonds						
2002 Gravel Street	3.65 to 4.90%	April 2017	<u>\$ 380,000</u>	<u>\$ ( 30,000)</u>	<u>\$ 350,000</u>	<u>\$ 35,000</u>
<b>Business-Type Activities</b>						
Revenue Bonds						
1981 Water Line	5.00%	March 2022	\$ 61,000	\$ ( 3,000)	\$ 58,000	\$ 3,000
1984 Water Line	7.125%	March 2022	97,000	( 2,000)	95,000	2,000
1992 Wastewater Plant	5.00%	March 2032	1,034,000	( 21,000)	1,013,000	21,000
2007 Water Line	4.125%	April 2047	-	492,000	492,000	13,000
			<u>\$ 1,192,000</u>	<u>\$ 466,000</u>	<u>\$1,658,000</u>	<u>\$ 40,000</u>
<b>Internal Service Fund</b>						
Purchase Contract						
2006 Police Car	6.15%	July 2008	<u>\$ 11,627</u>	<u>\$ ( 5,640)</u>	<u>\$ 5,987</u>	<u>\$ 5,987</u>
			<u>\$ 11,627</u>	<u>\$ ( 5,640)</u>	<u>\$ 5,987</u>	<u>\$ 5,987</u>
<b>Component Unit</b>						
General Obligation Bonds						
2001 DDA Streetscape	4.558%	December 2016	<u>\$ 280,000</u>	<u>\$ ( 20,000)</u>	<u>\$ 260,000</u>	<u>\$ 20,000</u>

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 6. LONG-TERM DEBT (Continued)**

Scheduled principal maturities of long-term debt for years subsequent to June 30, 2008, are as follows:

Year Ending June 30	Governmental Activities	Business-Type Activities	Internal Service Fund	Component Unit
2009	\$ 35,000	\$ 40,000	\$ 5,987	\$ 20,000
2010	35,000	41,000	-	20,000
2011	35,000	43,000	-	25,000
2012	35,000	45,000	-	25,000
2013	35,000	46,000	-	25,000
Thereafter	175,000	1,443,000	-	145,000
Total	<u>\$ 350,000</u>	<u>\$ 1,658,000</u>	<u>\$ 5,987</u>	<u>\$ 260,000</u>

Interest expense for the year ended June 30, 2008, totaled \$93,340.

**NOTE 7. SEGMENT INFORMATION**

The City issued revenue bonds to finance water and sewer system improvements. Summary financial information for the sewer and water departments are presented below:

**Condensed Statement of Net Assets:**

	Sewer	Water
Assets		
Current Assets	\$ 225,387	\$ 139,321
Due From Other Funds	50,000	-
Restricted Assets	62,930	132,403
Capital Assets	2,465,399	1,795,252
Total Assets	<u>2,810,117</u>	<u>2,066,976</u>
Liabilities		
Current Liabilities	25,636	11,799
Due to Other Funds	-	-
Noncurrent Liabilities	994,000	640,000
Total Liabilities	<u>1,019,636</u>	<u>651,799</u>
Net Assets		
Invested in Capital Assets	1,452,399	1,150,252
Restricted	62,930	132,403
Unrestricted	275,152	132,522
Total Net Assets	<u>\$ 1,790,481</u>	<u>\$ 1,415,117</u>

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 7. SEGMENT INFORMATION (Continued)**

**Condensed Statement of Revenue, Expenses, and Changes in Net Assets:**

	Sewer	Water
Operating Revenues	\$ 227,526	\$ 206,865
Depreciation Expense	(74,833)	(36,771)
Other Operating Expenses	(126,087)	(123,342)
Operating Income	<u>26,606</u>	<u>46,752</u>
Nonoperating Revenue (Expense)		
Investment Earnings	932	3,315
Interest Expense	(49,309)	(14,055)
Transfers	(45,000)	-
Grants	-	130,868
Change in Net Assets	<u>(66,771)</u>	<u>166,880</u>
Beginning Net Assets	1,857,252	1,248,297
Total Net Assets	<u>\$ 1,790,481</u>	<u>\$ 1,415,177</u>

**Condensed Statement of Cash Flows:**

	Sewer	Water
Net Cash Provided by (Used in)		
Operating Activities	\$ 99,367	\$ 87,887
Noncapital Financing Activities	(45,695)	(403)
Capital and Related Financing Activities	(70,309)	1,466
Investing Activities	932	3,315
Net Increase (Decrease)	<u>(15,705)</u>	<u>92,265</u>
Beginning Cash and Cash Equivalents	271,377	130,880
Ending Cash and Cash Equivalents	<u>\$ 255,672</u>	<u>\$ 223,145</u>

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 8. RESTRICTED ASSETS**

The balances of the restricted asset accounts in the sewer and water funds are as follows:

	<u>Sewer</u>	<u>Water</u>
Restricted for debt obligations	\$ 62,930	\$ 49,121
Restricted for repairs	<u>-</u>	<u>83,282</u>
Total	<u>\$ 62,390</u>	<u>\$ 132,403</u>

**NOTE 9. RISK MANAGEMENT**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The City has purchased commercial insurance for these types of claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

**NOTE 10. PENSION PLAN**

The City has a contributory Individual Retirement Account annuity plan covering union employees, who are full-time, age twenty-one and over, and employed with the City for at least one year. The City's policy is to contribute 7.5 percent of the annual salaries of covered employees into this plan. The City's pension expense for the year ended June 30, 2008, was \$16,006.

The City also has a Money Plan and Trust plan for all full-time, administrative employees. The City's policy is to contribute 7.5 percent of the annual salaries of covered employees into this plan. The City's expense under this plan for the year ended June 30, 2008, was \$2,842.

**NOTE 11. DEFERRED COMPENSATION PLAN**

The City offers all full-time employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The assets of the plans are held in trust, as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The Plan custodian holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The Plan administrators are agents of the employer (City) for the purpose of providing direction to the Plan custodian from time to time for the investment of the funds held in the custodial account, transfer of assets to or from the custodial account, and all other matters. In accordance with the provisions of GASB Statement No. 32, the plan's net asset balances and activities are not reflected in the City's financial statements.

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 11. DEFERRED COMPENSATION PLAN (Continued)**

A summary of the plan's investment activity for the year ended June 30, 2008, follows:

Balance - June 30, 2007	\$ 140,799
Employer Contributions	5,970
Interest and Market (Losses)	<u>(6,862)</u>
Balance - June 30, 2008	<u><u>\$ 139,907</u></u>

**NOTE 12. COMMITMENTS**

During the year ended June 30, 2008, the City began a project to replace several of its water system's water mains and complete other improvements to the water system. The City estimates that the project will cost approximately \$1,875,000. As of June 30, 2008, the City has expended \$602,347 for the project

The United States Department of Agriculture has approved a grant to the City in the amount of \$750,000 to fund the water system improvements. The City expects to issue revenue bonds in the amount of \$1,125,000 to finance the remaining cost of the project. The revenue bonds will be repaid with revenue collected from users of the water system. As of June 30, 2008, the City has received \$492,000 of revenue bond proceeds to fund the project.

**CITY OF BEAVERTON**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**For the Year Ended June 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Property taxes and related fees	\$ 315,400	\$ 339,510	\$ 350,800	\$ 11,290
Licenses and permits	4,420	720	460	(260)
State aid	125,000	125,000	135,655	10,655
Charges for services	78,350	77,350	68,041	(9,309)
Interest and dividends	2,500	3,000	2,754	(246)
Rents and royalties	14,000	15,000	15,165	165
Fines and forfeits	4,300	3,500	3,403	(97)
Miscellaneous	800	2,200	3,625	1,425
<b>Total revenues</b>	<b>544,770</b>	<b>566,280</b>	<b>579,903</b>	<b>13,623</b>
<b>EXPENDITURES</b>				
General Government:				
City council	6,388	6,598	6,194	404
City manager	37,905	38,189	34,469	3,720
Treasurer	26,107	25,295	21,806	3,489
Assessing	10,182	10,182	9,764	418
Clerk	4,090	3,097	2,889	208
Elections	4,400	5,185	5,217	(32)
Board of review	637	620	586	34
Cemetery	24,375	25,890	16,431	9,459
Buildings and grounds	9,100	7,500	7,035	465
Finance and administration	78,063	82,002	78,883	3,119
All other general government	9,000	5,000	4,457	543
Public Safety:				
Fire protection contract	22,500	20,000	19,981	19
Police department	106,328	106,924	103,160	3,764
Building inspection and regulation activities	550	250	170	80
Public Works:				
Public works	81,900	103,760	96,151	7,609
Highways and streets	15,200	16,000	1,331	14,669
Garbage collection	35,158	35,158	34,227	931
Street lights	20,000	23,000	19,490	3,510
Community Development:				
Planning commission	250	250	-	250
Recreation and Culture:				
Parks and recreation	84,151	82,894	60,837	22,057
Capital Outlay:				
Police department	4,800	4,800	4,800	-
<b>Total expenditures</b>	<b>581,084</b>	<b>602,594</b>	<b>527,878</b>	<b>74,716</b>
<b>Deficiency of revenues over expenditures</b>	<b>(36,314)</b>	<b>(36,314)</b>	<b>52,025</b>	<b>88,339</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers-in	72,414	72,414	65,000	(7,414)
Transfers-out	(36,100)	(36,100)	(36,000)	100
<b>Total other financing sources and uses</b>	<b>36,314</b>	<b>36,314</b>	<b>29,000</b>	<b>(7,314)</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>-</b>	<b>81,025</b>	<b>81,025</b>
Fund balances-beginning	84,775	84,775	84,775	-
<b>Fund balances-ending</b>	<b>\$ 84,775</b>	<b>\$ 84,775</b>	<b>\$ 165,800</b>	<b>\$ 81,025</b>

**CITY OF BEAVERTON**  
**BUDGETARY COMPARISON SCHEDULE**  
**MAJOR STREET**  
**For the Year Ended June 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
State aid	\$ 56,000	\$ 65,000	\$ 60,118	\$ (4,882)
Interest and dividends	900	900	476	(424)
Miscellaneous	800	800	-	(800)
<b>Total revenues</b>	<b>57,700</b>	<b>66,700</b>	<b>60,594</b>	<b>(6,106)</b>
<b>EXPENDITURES</b>				
Salaries and wages	14,000	19,500	19,830	(330)
Payroll taxes	1,100	1,492	1,443	49
Employee benefits	3,500	3,758	3,237	521
Supplies	1,000	50	39	11
Contracted services	200	-	-	-
Insurance	818	818	818	-
Engineering costs	3,500	200	198	2
Utilities	1,000	100	65	35
Repairs and maintenance	2,000	50	30	20
Equipment rental	18,000	18,000	27,179	(9,179)
Miscellaneous	-	150	150	-
<b>Total expenditures</b>	<b>45,118</b>	<b>44,118</b>	<b>52,989</b>	<b>(8,871)</b>
<b>Excess of revenues over expenditures</b>	<b>12,582</b>	<b>22,582</b>	<b>7,605</b>	<b>(14,977)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers-out	(12,582)	(22,582)	(22,582)	-
<b>Total other financing sources and uses</b>	<b>(12,582)</b>	<b>(22,582)</b>	<b>(22,582)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>-</b>	<b>(14,977)</b>	<b>(14,977)</b>
Fund balances-beginning	31,143	31,143	31,143	-
<b>Fund balances-ending</b>	<b>\$ 31,143</b>	<b>\$ 31,143</b>	<b>\$ 16,166</b>	<b>\$ (14,977)</b>

**CITY OF BEAVERTON**  
**BUDGETARY COMPARISON SCHEDULE**  
**LOCAL STREET**  
**For the Year Ended June 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
State aid	\$ 23,500	\$ 24,100	\$ 24,124	\$ 24
Interest and dividends	739	739	435	(304)
<b>Total revenues</b>	<b>24,239</b>	<b>24,839</b>	<b>24,559</b>	<b>(280)</b>
<b>EXPENDITURES</b>				
Salaries and wages	14,705	16,605	16,876	(271)
Payroll taxes	1,416	1,266	1,233	33
Employee benefits	2,400	2,200	1,937	263
Supplies	1,000	50	39	11
Contracted services	-	600	600	-
Engineering costs	1,000	-	-	-
Equipment rental	13,200	24,200	24,039	161
Repairs and maintenance	3,000	2,500	2,482	18
Miscellaneous	100	-	-	-
<b>Total expenditures</b>	<b>36,821</b>	<b>47,421</b>	<b>47,206</b>	<b>215</b>
<b>Deficiency of revenues over expenditures</b>	<b>(12,582)</b>	<b>(22,582)</b>	<b>(22,647)</b>	<b>(65)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers-in	12,582	22,582	22,582	-
<b>Total other financing sources and uses</b>	<b>12,582</b>	<b>22,582</b>	<b>22,582</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>-</b>	<b>(65)</b>	<b>(65)</b>
Fund balances beginning	7,100	7,100	7,100	-
<b>Fund balances-ending</b>	<b>\$ 7,100</b>	<b>\$ 7,100</b>	<b>\$ 7,035</b>	<b>\$ (65)</b>



**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
SCHEDULE OF FEDERAL AWARDS  
For the Year Ended June 30, 2008**

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Receipts or Revenue Recognized	Disbursements or Expenditures
U.S. Department of Agriculture			
Rural Utilities Service	10.760	492,000	492,000
Rural Development	10.766	49,000	49,000
U.S. Department of Housing and Urban Development			
Passed through Michigan Economic Development Corporation			
Community Development Block Grant	14.228	<u>130,868</u>	<u>130,868</u>
GRAND TOTAL		<u><u>\$671,868</u></u>	<u><u>\$671,868</u></u>

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City conform to generally accepted accounting principles as applicable to state and local governmental units. The following is a summary of the more significant policies relating to the aforementioned grant programs.

1. The Schedule of Federal Awards was prepared using the modified accrual basis of accounting.
2. The City is a member of the Michigan Municipal Management Authority, which is a public entity risk pool with other units of government in Michigan. These self-insurance plans provide members with loss of protections for property damage, general liability, automobile damage, and machinery damage.
3. This schedule of Federal awards includes the federal grant activity of the City of Beaverton. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2008**

**Section I - Summary of Auditor's Results**

*Financial Statements*

Type of auditors' report issued: *Unqualified*

Internal Control over financial reporting:

• Material weaknesses identified? *None*

• Significant deficiencies identified that are not considered to be material weaknesses? *No*

Noncompliance material to financial statements noted? *None*

*Federal Awards*

Internal control over major programs:

• Material weaknesses identified? *None*

• Significant deficiencies identified that are not considered to be material weaknesses? *None*

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? *No*

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.760	USDA – Rural Utilities Service
10.766	USDA – Rural Development
14.228	HUD – Community Planning & Development

Dollar threshold used to distinguish between type A and type B programs: *\$300,000*

Auditee qualified as low-risk auditee? *No*

**CITY OF BEAVERTON  
GLADWIN COUNTY, MICHIGAN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2008**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

None

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Members of the City Council  
City of Beaverton  
Gladwin County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Beaverton (the "City"), Gladwin County, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City of Beaverton's basic financial statements and have issued our report thereon dated December 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered City of Beaverton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Beaverton's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Beaverton's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Beaverton's internal control.

**Internal Control Over Financial Reporting (Continued)**

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Beaverton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of Beaverton, in a separate letter dated December 15, 2008.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Burnside & Zong, P.C.*

Midland, Michigan  
December 15, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Members of the City Council  
City of Beaverton  
Gladwin County, Michigan

**Compliance**

We have audited the compliance of the City of Beaverton (the “City”), Gladwin County, Michigan, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of Beaverton’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Beaverton’s management. Our responsibility is to express an opinion on the City’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Beaverton’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City’s compliance with those requirements.

In our opinion, the City of Beaverton, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

**Internal Control Over Compliance**

The management of the City of Beaverton is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Beaverton’s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of

**Internal Control Over Compliance (Continued)**

expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Burnside & Long, P.C.*

Midland, Michigan  
December 15, 2008